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C O N F I D E N T I A L SECTION 01 OF 03 TEGUCIGALPA 001971

SIPDIS

STATE FOR WHA/CEN, WHA/EPSC, DRL/IL, AND EB/ESC
STATE FOR DS/IP/WHA - MFLYNN, DS/ITA - KHALL, DS/DSS/OSAC - CMEDEIROS
COMMERCE FOR MSEIGELMAN
TREASURY FOR DDOUGLAS
ENERGY FOR IA
DOL FOR ILAB

E.O. 12958: DECL: 09/22/2015
TAGS: EPET ECON ELAB PGOV KSAC HO
SUBJECT: HONDURAS DECLARES ENERGY EMERGENCY, RESTRICTS MARKET

REF: A. A) TEGUCIGALPA 1851

¶B. B) TEGUCIGALPA 1873
¶C. C) TEGUCIGALPA 1910

Classified By: ECONCHIEF PDUNN FOR REASONS 1.5(B AND D)

¶1. (C) Summary. In an emergency session on September 22, the GOH Council of Ministers declared an energy state of emergency in Honduras. The decree imposes a number of energy conservation measures, but does not directly address fuel prices, which remain frozen without benefit of a Congressional decree. The Commission of Notables -- formed to investigate fuel prices and recommend reforms -- continues to disintegrate as politicization and mission creep reportedly overshadow the difficult and necessary work of reforming the fuel pricing formula and gaining public support for the new policy. Four commission members of the ten have already resigned or announced their intentions to do so. The Council of Ministers decisions are notable in their lack of action on the more incendiary Commission proposals, though separate talks with the oil sector continue (reported septel). End Summary.

¶2. (U) In an emergency session on September 22, the GOH Council of Ministers declared an energy state of emergency in Honduras. This declaration -- a response to the recent civil unrest stemming from sharp increases in fuel prices (refs A and B) -- imposed a number of measures designed to reduce fuel consumption. The Council decree mandated that for a period of 15 days the "unlimited consumption" of electricity would be restricted. Specific restrictions include: store owners must turn off store signs and electric billboards after 10 p.m.; gasoline stations will remain closed on Sundays; bus and taxi routes will be re-designed to reduce congestion in urban areas; cargo deliveries to businesses in urban areas will be restricted to off-peak hours; rush hour will be eased by mandating that public and private sector workers report for work at different hours; and import duties on fuel-efficient vehicles will be reduced.

¶3. (C) The decree does not address the issue of the current price freeze on gasoline, imposed on September 7 for ten days by congressional decree and extended de facto (but not de jure) for another ten days on September 17 without a congressional decree. The first price freeze rolled back prices at the retail level to pre-Hurricane Katrina prices (ref B) and mandated that the GOH would reimburse retailers for the difference. The de facto continuation of that price freeze, however, is not spelled out in any decree, and it remains unclear who will foot the bill for that policy. Public speculation is that the importers will absorb the cost differential (oil sector responses to this proposal reported septel). Catholic Priest Jesus Mora, representing Cardinal Oscar Rodriguez as a non-voting member of the Commission, told PolChief September 21 that it appeared that importers would in fact do so for public transportation. International Monetary Fund (IMF) Resident Representative Hunter Monroe told EconChief that the Fund remains concerned about the potential fiscal impact of this new policy, but is withholding judgment until the costs and payment mechanisms are made clear.

¶4. (C) The report that spurred this Council of Ministers meeting was authored by the Commission of Notables -- a group of ten high-profile persons formed by the GOH on September 7 to examine energy pricing policies in Honduras (refs B and C). The group contains no experts on the petroleum sector and has been plagued by politicization and internal dissent since it began to meet. Irma Acosta de Fortin was the first to resign from the Commission, publicly criticizing it for both exceeding its mandate and failing to fulfill its mandate. According to Fortin, the commission has not examined the fuel pricing formula, and has not proposed a transparent and efficient reform to that formula that the public can both understand and accept. The commission has, however, proposed revising thermo-electric generating

contracts, and exploring nationalized fuel imports and approaching Venezuela for concessional fuel sales, all of which, she said, goes well beyond the Commission's mandate. Privately, Fortin told Post that she was frustrated by the political grandstanding of several other commission members, who seemed more interested in talking to the press about the fuel crisis than in talking to one another.
¶5. (C) According to IMF ResRep Monroe, Jorge Bueso has also decided to leave the commission. Bueso has long counseled adoption of a responsible, practical fuel policy that recognizes its centrality to the modern economy and that respects fiscal limits imposed on the GOH by its available resources and by the IMF and other international donors. Emilio Larach, a businessman considered to be moderate on the fuel issue, has also publicly declared his intention to abandon the commission. Larach previously sought to refuse nomination to the commission in the first place, but was reportedly persuaded to accept the post by the Casa Presidencial. On September 22, another commission member, President of the Honduran Private Sector Council (COHEP) Jose Maria Agurcia, told EconChief that he, too, will leave the commission this weekend. "I won't be making a scandal of (my departure)," he said, "but I won't be going back next week." Agurcia has been tasked with reporting on any limitations in vertical integration in the U.S. gasoline markets. Post has provided him with information from the Federal Energy Regulatory Commission (FERC) and from the Federal Trade Commission (FTC). Agurcia intends to recommend that Honduras adopt a structure that does not limit a priori the ability of firms to vertically integrate (that is, for importers to also distribute and market fuel products), but that has strong anti-monopoly provisions. He favors strengthening the Ministry of Commerce's Technical Petroleum Unit (UTP) to give it the technical and financial capacity to appropriately enforce consumer protections in the retail fuel sector while maximally opening the sector to competition.

¶6. (C) The Council of Ministers also did not take up the issue of state-run fuel imports, long a favorite theme of Commission member Juliette Handal (a National Party politician, wife of Vice President of Congress Johnny Handal, and former President of the "Patriotic Coalition" -- a group formed last year to promote increased state involvement in the gasoline sector). The Commission, in addition to exploring state-run importation based on the Costa Rica model, also pointed out that under Decree 94 of 1983, the state is permitted to contract with the private sector for fuel storage. (Note: It appears to Post from an examination of that decree that such contracts would be on market terms and would not constitute nationalization or expropriation of the storage facilities. End Note.) Texaco Country Manager Luis Mayorga told EconChief that Texaco (owner of much of the fuel storage capacity in Honduras, based in Puerto Cortes) would be willing to contract for storage of fuel on behalf of the GOH, as it does with other oil companies, but that any such contract would be at prevailing market rates.

¶7. (C) The Commission also suggested that the GOH investigate and re-negotiate contracts with electricity generators (a theme that has been much in the press recently but which goes well beyond the Commission's mandate.) The Council of Ministers took no action on that recommendation. General Manager of parastatal electric company ENEE Angelo Botazzi is publicly quoted saying, "We are agreeable to reviewing the contracts with thermo-electric generating companies. There has been no intervention by the Commission of Notables; there is an open dialogue." Botazzi went on to endorse the Council's emphasis on energy conservation.

¶8. (C) Comment: While the ill-defined status of the current de-facto price freeze on fuel prices remains troubling, the measures proposed by the Council of Ministers seem largely laudable to us. Using the fuel crisis as pretext, the Council has cracked down on traffic congestion and illegal taxi and bus routes, and begun taking steps to encourage energy conservation. We would prefer to see price pass-throughs used as a signal to consumers to conserve energy, rather than a government mandate, but that seems unlikely in the highly-charged political atmosphere only two months before the November 27 presidential elections. Closing gas stations on Sundays seems largely symbolic, and runs the risk of encouraging the development of illegal sales by unlicensed dealers. The Council has attempted to address these risks by also mandating steep fines for violators, but the GOH political will and capacity for enforcement is historically weak. See septel for Post analysis of impacts on U.S. and other petroleum sector companies. End Comment.

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